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C O N F I D E N T I A L SANAA 003591

SIPDIS

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TAGS: PGOV EFIN ECPS EIND EINV ETTC KMPI KMCA YM ECON COM
SUBJECT: UNITEL SIGNS CONTRACT FOR YEMEN'S THIRD GSM OPERATOR, FAILS TO PAY

REF: SANAA 2844

Classified By: Ambassador Thomas C. Krajeski for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY. After winning Yemen's third GSM license under a dubious tendering process with a staggering bid of USD 149 billion, Unitel has now failed to pay. Initially billed by the Ministry of Telecommunications as a Chinese company, Unitel now appears to have no Chinese investors at all. A small group of Yemeni businessmen behind Unitel are seeking new capital from regional investors, but have met with little success. This is the latest violation of a tendering process that was suspect from the beginning, and offers new evidence of foul play at the ministry. END SUMMARY.

¶2. (U) After winning Yemen's third GSM tender over two months ago, Unitel finally signed an operating contract with the ROYG on November 28. According to the terms of the tender document, the company had fifteen days to pay the full amount of its bid -- USD 149 million. (Ref A) The document specifies that in the case of non-payment, the award should go to another bidder. (Note: Post advocated for the American bid of Millicom-Motorola. End note.) As of December 23, no payment had been made. Nevertheless, Unitel Executive Director Mohammad Ahmed al-Koor confidently announced in the government-controlled paper "May 22" that, "The company would open service to customers by the second half of 2006."

¶3. (C) According to Tarik al-Haydari, CEO of GSM competitor Sabafon, there is no Chinese investment in Unitel, as previously announced. The company is the creation of al-Koor and two former executives of GSM competitor Spacetel, and any Chinese involvement appears to be strictly in the area of equipment sales. Fathi Fahem, who submitted a bid for the GSM tender with Millicom, estimated that the principal investors in Unitel have no more than USD 10 million combined, and have been desperately searching for new investors. Recent visits from Jordanian and Palestinian mobile phone operators to Yemen would seem to confirm these suspicions. The absence of Chinese investors contradicts months of information from the Ministry of Telecommunications and Information Technology (MOTIT), which repeatedly suggested that Unitel was a serious bidder backed by China Mobile.

¶4. (C) Officials within MOTIT, many of whom expressed discomfort to Econoff with ROYG management of the tender, publicly expressed impatience with the newest irregularities in the tender process. If Unitel does not pay its bid amount in full, said Deputy Minister al-Hammami, the ROYG will award the contract to the next highest bidder (Omantel). Despite such statements, the ROYG has thus far not imposed a deadline on payment, in effect allowing Unitel an unlimited extension to raise the necessary capital. As part of his sales pitch, Al-Koor claims that the ROYG will allow investors to pay in installments, and to make such payments contingent on profits. Such an arrangement, while practical from an investment perspective, is a clear violation of the official tender document.

¶5. (C) COMMENT: Unitel's failure to pay comes as no surprise to observers of Yemen's High Tendering Board and the Ministry of Telecommunications. Unitel's bid of USD 149 million was fifty percent higher than its nearest competitor, and by all accounts had no basis in reality. There was never clear evidence of Chinese backing, and many observers believed that the bid included debt forgiveness to MOTIT in the amount of USD 80 million, provided by the Chinese for Yemen Mobile, the ROYG's ill-fated CDMA mobile phone venture. The size of Unitel's bid, however, attracted enormous attention from both high officials and outside observers. Facing a budget crunch, the Minister of Finance insisted that the full bid amount be deposited into the treasury. Ambassador and others insisted that for the sake of Yemen's investment climate, the tender documents must be followed. The Chinese, with no intention of paying cash to enter the Yemeni market, abandoned the deal and revealed the tender process as a farce. Stuck with a tab of USD 149 million and growing anger both inside and outside the ROYG, Unitel and the ministry are now looking to change the terms of the tender in an effort to save face, and perhaps their necks. END COMMENT.
Krajeski